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BEFORE THE ARIZONA CORPORATION COMMISSION

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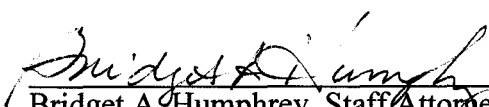
IN THE MATTER OF THE APPLICATION OF
ARIZONA ELECTRIC POWER COOPERATIVE,
INC. FOR A HEARING TO DETERMINE THE
FAIR VALUE OF ITS PROPERTY FOR
RATEMAKING PURPOSES, TO FIX A JUST AND
REASONABLE RETURN THEREON AND TO
APPROVE RATES DESIGNED TO DEVELOP
SUCH RETURN.

DOCKET NO. E-01773A-12-0305

**STAFF'S NOTICE OF FILING
TESTIMONY**

The Utilities Division ("Staff") of the Arizona Corporation Commission ("Commission")
hereby submits the Direct Testimony of Staff witness Candrea Allen in the above-referenced matter.

RESPECTFULLY SUBMITTED this 26th day of August, 2015.



Bridget A. Humphrey, Staff Attorney
Charles Hains, Staff Attorney
Legal Division
Arizona Corporation Commission
1200 West Washington Street
Phoenix, Arizona 85007
(602) 542-3402

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Arizona Corporation Commission
1200 West Washington Street
Phoenix, Arizona 85007

Arizona Corporation Commission
DOCKETED

AUG 26 2015

DOCKETED BY 

1 Copy of the foregoing mailed and/or emailed
2 this 26th day of August, 2015 to:

3 Michael M. Grant
4 Jennifer Cranston
5 GALLAGHER & KENNEDY, P.A.
6 2575 E. Camelback Road
7 Phoenix, AZ 85016-9225
8 Attorneys for AEPCO
9 mmg@gknet.com
10 jennifer.cranston@gknet.com

11 Michael W. Patten
12 SNELL & WILMER, L.L.P.
13 One Arizona Center
14 400 East Van Buren Street
15 Phoenix, AZ 85004
16 Attorneys for Trico
17 mpatten@swlaw.com

18 Russell E. Jones
19 WATERFALL ECONOMIDIS
20 CALDWELL HANSHAW &
21 VILLAMANA, P.C.
22 5210 E. Williams Circle, Suite 800
23 Tucson, AZ 85711
24 Attorneys for Trico

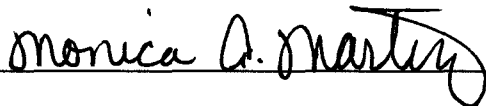
25 Vincent Nitido
26 Karen Cathers
27 TRICO ELECTRIC COOPERATIVE, INC.
28 8600 W. Tangerine Road
P.O. Box 930
Marana, AZ 85653
vnitido@trico.coop
kcathers@trico.coop

Jeffrey W. Crockett
CROCKETT LAW GROUP PLLC
1702 E. Highland Avenue, Suite 204
Phoenix, AZ 85016
Attorneys for SSVEC
jeff@jeffcrockettlaw.com

Kirby Chapman
SSVEC
322 E. Wilcox Drive
Sierra Vista, AZ 85635
kchapman@ssvec.com

Michael A. Curtis
William P. Sullivan
CURTIS, GOODWIN, SULLIVAN, UDALL
& SCHWAB, P.L.C.
501 East Thomas Road
Phoenix, AZ 85012-3205
Attorneys for Mohave Electric Cooperative,
Incorporated
Mcurtis401@aol.com
wsullivan@cgsuslaw.com

Tyler Carlson, Chief Operating Officer
Peggy Gilman, Manager of Public Affairs &
Energy Services
MOHAVE ELECTRIC COOPERATIVE,
INCORPORATED
P.O. Box 1045
Bullhead City, AZ 86430
tcarlson@mohaveelectric.com

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BEFORE THE ARIZONA CORPORATION COMMISSION

SUSAN BITTER SMITH

Chairman

BOB STUMP

Commissioner

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IN THE MATTER OF THE APPLICATION
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COOPERATIVE, INC. TO DETERMINE
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DOCKET NO. E-01773A-12-0305

ECAR APPLICATION

DIRECT

TESTIMONY

OF

CANDREA ALLEN

PUBLIC UTILITIES ANALYST

UTILITIES DIVISION

ARIZONA CORPORATION COMMISSION

AUGUST 26, 2015

EXECUTIVE SUMMARY
ARIZONA ELECTRIC POWER COOPERATIVE, INC.
DOCKET NO. E-01773A-12-0305

Staff's testimony details Staff's position and recommendations relating to Arizona Electric Power Cooperative, Inc.'s ("AEPCO") request to recover the costs for chemical expenses associated with the Environmental Protection Agency Regional Haze and Mercury and Air Toxics Standards environmental compliance requirements through its proposed Environmental Compliance Adjustment Rider. In addition, Staff addresses the changes AEPCO is proposing to its Tariff and Plan of Administration.

1 **Q. Please state your name and business address.**

2 A. My name is Candrea Allen. My business address is 1200 West Washington Street, Phoenix,
3 Arizona 85007.

4
5 **Q. By whom are you employed and in what capacity?**

6 A. I am employed by the Arizona Corporation Commission ("Commission") in the Utilities
7 Division ("Staff") as a Public Utilities Analyst. I provide recommendations on various utility
8 applications to the Commission. I have been employed by the Commission since 2006.

9
10 **Q. What is the scope of your testimony in this case?**

11 A. My testimony will be limited to Staff's position and recommendations relating to the Arizona
12 Electric Power Cooperative, Inc.'s ("AEPCO") request to recover the costs for chemical
13 expenses associated with the Environmental Protection Agency ("EPA") Regional Haze and
14 Mercury and Air Toxics Standards ("MATS") environmental compliance requirements for
15 AEPCO's two coal-fired units at the Apache Generating Station ("Apache Station") through
16 its proposed Environmental Compliance Adjustment Rider ("ECAR"). In addition, I will be
17 addressing the changes AEPCO is proposing to its ECAR Tariff and Plan of Administration
18 ("POA") as described in the direct testimony of Joe King filed on June 19, 2015.

19
20 **Q. Have you provided previous testimony in this docket?**

21 A. No. However, on October 17, 2014, I did prepare a memorandum regarding the AEPCO
22 application for approval of its proposed ECAR Tariff and POA. Staff recommended
23 approval of AEPCO's proposed ECAR Tariff and POA with the exception of the chemical
24 expenses requested to be recovered through the ECAR. Dennis Kalbarczyk provided
25 surrebuttal testimony, on behalf of Staff, regarding the ECAR (filed July 3, 2013) as part of
26 the initial AEPCO rate case.

1 **Q. Please provide a brief history of the rate case proceeding regarding the proposed**
2 **ECAR.**

3 A. On July 5, 2012, AEPCO filed a rate case application with the Commission. The rate case
4 application requested a decrease in AEPCO's revenue requirement, continuation of its
5 Purchased Power and Fuel Adjustor Clause ("PPFAC"), with modifications, and approval of
6 revised depreciation rates which were based on the results of a study of AEPCO's Apache
7 Station, required from the previous rate case decision (Decision No. 72055). During this rate
8 case proceeding, AEPCO proposed the ECAR as a surcharge mechanism that is intended to
9 provide recovery of potential costs associated with environmental compliance requirements.

10
11 On October 25, 2013, the Commission issued Decision No. 74173 which approved
12 AEPCO's requested rate decrease, among other things, and also ordered that this case remain
13 open until April 30, 2014, for the limited purpose of allowing AEPCO to file for Commission
14 approval, if it so chose, after collaboration with Staff, a proposed ECAR Tariff and POA.
15 On April 30, 2014, AEPCO filed in this docket, an application for approval of its proposed
16 ECAR Tariff and POA. On October 17, 2014, Staff filed its Staff Report regarding the
17 ECAR application. On November 13, 2014, AEPCO filed its response to the Staff Report
18 regarding the ECAR application. On January 14, 2015, a Proposed Order was issued by the
19 Administrative Law Judge ("ALJ"). On January 21, 2015, Mohave Electric Cooperative, Inc.
20 ("MEC") filed a letter indicating MEC's support for the requests in AEPCO's January 22,
21 2015, filing and on January 22, 2015, AEPCO filed a Request for Procedural Conference and
22 Postponement of Commission Consideration Re ECAR. AEPCO requested that the
23 Commission postpone consideration of the ECAR Application until after a hearing is held,
24 and that a procedural conference be held for the purpose of scheduling a hearing on
25 contested issues in its ECAR Application.
26

1 Following an extensive procedural history detailed in this docket, on May 7, 2015, the ALJ
2 issued a procedural order setting the matter for a hearing and setting associated procedural
3 deadlines, including notice requirements, for this matter. On August 10, 2015, the ALJ issued
4 another procedural order revising the hearing date, among other procedural matters.

5
6 **Q. Please briefly describe the ECAR mechanism.**

7 A. The ECAR is a monthly surcharge intended to provide cost recovery of potential costs
8 associated with future EPA Regional Haze environmental and MATS compliance
9 requirements for AEPCO's two coal-fired units at the Apache Station and also any other
10 potential obligations mandated by federal, state and/or local environmental regulations. The
11 ECAR would be applicable to all of AEPCO's Class A member distribution cooperatives. In
12 addition to the ECAR, AEPCO would develop an Environmental Compliance Strategy
13 ("ECS") plan to accompany the ECAR. The ECS plan would include the scope of work,
14 anticipated timelines, and cost estimates specific to the ECAR that would apply. The ECS
15 plan would specify the Qualified Environmental Compliance Projects ("QECF") that would
16 be implemented in order to comply with any required environmental regulations. The costs
17 associated with any QECF, as identified in an ECS plan, would be recovered through the
18 ECAR, as approved by the Commission.

19
20 **Q. Please describe Staff's position regarding the recovery of chemical expenses through**
21 **the ECAR.**

22 A. Staff's initial position, based upon the information available at that time, was that the costs
23 for chemical expenses (as recorded in Rural Utility Service ("RUS") account 502) should not
24 be eligible for recovery through the ECAR. Subsequently, additional information was
25 provided by the Company, culminating in the Stipulated Statement of Facts which was
26 attached to AEPCO's Request for Briefing Order In Lieu Of Hearing Re ECAR filed on

1 April 22, 2015. AEPCO further submitted Direct Testimonies of Peter Scott and Joe King,
2 which contained additional details about the chemical expenses portion of the ECAR,
3 particularly regarding the estimates of the potential capital costs and chemical expenses.

4
5 According to information provided by AEPCO, the estimates of the costs for chemical
6 expenses represent a significant portion of the total cost estimates for AEPCO to comply
7 with the impending EPA regulations. The estimated annual costs for chemical expenses are:
8 \$2.2 million to \$4.5 million in 2016; \$3.1 million to \$6.2 million in 2017; and \$2.2 million to
9 \$5 million in 2018. Because the costs for chemical expenses represent such a significant
10 portion of the costs AEPCO would incur to comply with the EPA regulations, Staff has
11 determined that the exclusion of the recovery of chemical expenses would negatively impact
12 AEPCO financially.

13
14 In addition, Staff notes that the cost for the chemical expenses alone are estimated to be
15 more than the approximately \$1.96 million net operating income (margin) approved in
16 Decision No. 74173. Further, as stated in the Stipulated Statement of Facts (filed April 22,
17 2015), Staff has no evidence to the contrary regarding the cost estimates for both the urea
18 and activated carbon that would be used to comply with EPA regulations nor the bill impact
19 estimates made by AEPCO. Therefore, Staff does not dispute AEPCO's estimates.

20
21 **Q. Please explain the rationale behind Staff's initial position and recommendation.**

22 **A.** During its review of the AEPCO ECAR, Staff looked at the environmental surcharges that
23 have been approved by the Commission for other utilities as a guideline. For example, Staff
24 looked at the Environmental Improvement Surcharge ("EIS") that was approved for Arizona
25 Public Service Company ("APS") in Decision No. 69663 (dated June 28, 2007) as modified by

1 Decision No. 73183 (dated May 24, 2012).¹ The only costs that were contemplated as being
2 recoverable through the APS EIS were the capital costs associated with mandated
3 environmental compliance (as specified by Federal Energy Regulatory Commission ("FERC")
4 account). The costs for chemical expenses are not included in the list of qualified accounts as
5 recoverable through the EIS.

6
7 In general, Staff believed and continues to believe that the intention behind how the
8 surcharge should be implemented and the types of costs allowed to be recovered through
9 such a surcharge should remain consistent across utilities. However, given the amount of the
10 cost estimates for chemical expenses and the impact these costs could have on AEPCO
11 financially, if not recovered, Staff believes recovery of the chemical expenses through the
12 ECAR is appropriate.

13
14 **Q. Has Staff reviewed the proposed changes to the ECAR Tariff and POA?**

15 **A.** Yes. Staff has reviewed the proposed changes to the ECAR Tariff and POA. As described
16 in the direct testimony of Joe King, AEPCO is proposing to include an energy charge
17 (\$/kWh) to recover the costs for chemical expenses in conjunction with a fixed monthly
18 charge to recover the capital costs. The chemical expenses are on-going costs that may
19 fluctuate based on the amount of energy produced and consumed. Therefore, an energy
20 charge would provide transparency and more accurate tracking of these costs.

21

¹ The Commission also approved the Tucson Electric Power Company ("TEP") Environmental Compliance Adjustor ("ECA") in Decision No. 73912 (dated June 27, 2013). The ECA was modeled after the APS EIS. The APS EIS and the TEP ECA have been the only environmental surcharges approved by the Commission to date.

1 **Q. Does Staff have any revisions to the proposed changes to the ECAR Tariff and POA?**

2 A. No. Staff has reviewed the proposed changes to the ECAR Tariff and POA and believes the
3 proposed changes to the ECAR Tariff and POA described in Joe King's June 19, 2015
4 testimony are appropriate. Staff recommends approval of the proposed changes.

5

6 **Q. Does this conclude your direct testimony?**

7 A. Yes, it does.